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What Chicago's infrastructure trust means to institutional investors

Arleen Jacobius
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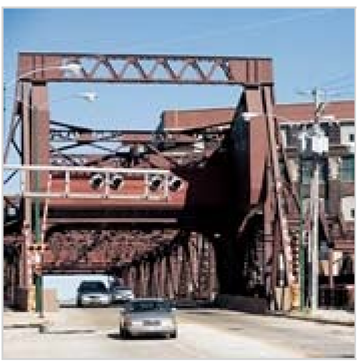
Crain's Chicago
Chicago's Cermak Road Bridge

If a new infrastructure trust being set up by the city of Chicago is successful, it could prove to be a new model for melding private money — including institutional dollars — and traditional public financing.

That model would open up a whole new set of domestic infrastructure investment opportunities at a time that institutional investors are boosting infrastructure allocations.

While many institutional investors such as CalPERS and CalSTRS have global infrastructure allocations, most other allocations by U.S. plans have a domestic bias, according to a global study of pension plan investment in infrastructure released by the Organization for Economic Co-operation and Development in September. Despite that bias, one of the main barriers to investment in infrastructure in the U.S. is that the "United States infrastructure market is immature and has not provided many opportunities to investors," the report noted, mainly because of a lack of deals offering room for private investment.

U.S. institutional investors have been steadily increasing allocations to infrastructure, either as a stand-alone asset class or as part of a real asset allocation. In 2011, 28 infrastructure funds raised $16.1 billion, up 85% from 2009 but down from $31.8 billion in 2010. And this is only a slice of the infrastructure investments made by institutional investors last year. Another $13.1 billion was committed to infrastructure funds that had not closed by the end of 2011, according to Preqin, a London alternative investment research firm.

The Top 200 U.S. defined benefit plans in Pensions & Investments' annual survey had an approximate weighted average infrastructure allocation of 0.6% as of Sept. 30, up from 0.2% the previous year.

The Oregon Investment Council, New Mexico Investment Council, Alaska Permanent Fund Corp., California Public Employees' Retirement System and California State Teachers' Retirement System all have created new infrastructure allocations or added to existing ones within the last year.

While there has been a smattering of private-public infrastructure projects in the U.S., the private-public partnership model that is well established in Europe, Canada and Australia has not exactly taken root in the U.S. It turns out that Americans are not wild about seeing infrastructure transferred to private hands, nor do they appreciate the price bump that has come with many of them, insiders say.

The proposed Chicago Infrastructure Trust is backed by four financial institutions and infrastructure investment managers, which could invest as much as $1 billion in projects. They are Citibank N.A. and Citi Infrastructure Investors; Macquarie Infrastructure and Real Assets Inc.; J.P. Morgan Asset Management Infrastructure Investment Group; and Ullico Investment Co. Each firm has agreed to consider the projects that the trust is undertaking and evaluate them for investment, according to a news release from the office of Mayor Rahm Emanuel. (The Chicago City Council is expected to vote on the proposal next month, said Kathleen Strand, spokeswoman for Mr. Emanuel's Economic Council.)

Chicago is not alone in trying to encourage investment. A number of states as well as some municipalities are considering their own infrastructure banks or trusts that would combine public financing with private money. Congress also is considering federal legislation that would invest billions to assist states to create infrastructure banks.

“Just about everybody is considering an infrastructure bank or trust,” but most have been state initiatives, said Sonia M. Axter, New York-based managing director-infrastructure investments for Ullico Investment.

The states of California, Oregon and Washington landed a grant to research ways to finance infrastructure projects with public and institutional and other private dollars, said James Sinks, spokesman for Oregon Treasurer Ted Wheeler and the Oregon Investment Council. Oregon issued an RFP searching for a consultant to come up with proposals. According to the RFP, much of the emphasis is to look for ways that public pension plans can finance infrastructure projects.

But the West Coast pilot project is in its early stages, Mr. Sinks said. “We are looking at the feasibility at this point,” he said. “It's almost a mapping exercise to see what the landscape and what the investing potential is.” He added: “We don't know what's on the table because we are still building the table.”

At the same time, large public pension funds are taking steps to explore direct and other investment in U.S. infrastructure.

The $233.4 billion California Public Employees' Retirement System, Sacramento, is sponsoring four infrastructure round tables designed to explore how pension plan money can be invested in U.S. infrastructure projects.

This is a big issue for CalPERS, which is reserving the lion's share of its infrastructure allocation for domestic investment. Under a new plan adopted by the board in September, $4 billion of the $5 billion CalPERS expects to spend on infrastructure over the next three years is to be invested in the U.S.; $800 million alone has been targeted for California.

Ullico Investment, which serves as the investor for many union pension funds, also is raising a fund to invest in U.S. infrastructure, according to the OECD report. Ms. Axter declined to discuss fundraising.

While the city of Chicago waits for approval of the infrastructure trust, it has had some discussions with potential providers of capital, including local public pension funds, Ms. Axter said.

It hasn't been helpful to institutional investors that although 25 states have passed legislation enabling the states to create public-private partnerships for infrastructure projects, relatively few projects have been launched.

“The idea of what Mayor Emanuel has done has been in discussion for some time,” said James Hooke, New York-based senior managing director, Macquarie Infrastructure & Real Assets. “The specifics are new. A number of states have tackled PPP (public-private partnership) legislation. There's a bit of navel gazing going on.”

Part of the appeal of Chicago's infrastructure trust structure is that it “gets around concerns” the public might have, said Felicity Gates, New York-based global co-head and partner, Citi Infrastructure Investors. “People don't want assets to go to the full control of the private sector and this would be a halfway house” because it would be invested through the city-administered trust.

Added Holly Keller Koeppel, London-based global co-head and partner at Citi Infrastructure: “There's been an historic discomfort with public assets in private hands. Public ownership, with the addition of private capital, addresses concerns of many.”

Macquarie's Mr. Hooke said he thinks that the launch of the Chicago trust could cause many states and municipalities to take the plunge. “I will be intrigued whether it turns into a model or whether every city will reinvent the wheel. I think there will be both. Such is the nature of public life.”

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